ANNUAL BUDGET OF

KOUGA LOCAL MUNICIPALITY

KOUGA
local municipality
Prosperity through vision

2013/14 TO 2015/16
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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- All satellite offices and public libraries within the municipality
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Part 1 – Annual Budget

1.1 Executive Mayor's Report

It is my privilege to submit the 2013/2014 Medium Term Revenue and Expenditure Framework (MTREF) to Council as prescribed in section 16(2) of the MFMA.

Council's strategic objectives of service delivery include the continuation of an acceptable level of services, as well as improvement in those areas where it is still lacking. Our focus in compiling this budget has been on finding a balance between good service delivery and collectable income based on the past financial year.

Efficient and financial discipline will be vital to ensure the long term financial sustainability of this institution and that the scarce resources available are channelled to areas of greatest need.

In order to address the above, this Budget aims to improve operational efficiencies. In this regard, the following areas will be prioritised internally:

- Reduction in overtime, telephone and cell phone usage and travelling
- Audit of all contracted services, such as photocopier machines being leased
- Streamlining the use of contracted security services
- Misuse of council resources and property
- Organisational restructuring
- Closing the gaps continuously for possible fraud and corruption

Fiscal issues that will be prioritised and will increase budget availability include the following:

- Enhancing revenue collection
- Focusing on repairs and maintenance to reduce water and electricity losses
- Streamlining trading services to ensure long-term sustainability

The Operating Budget for 2013/2014 amounts to R574 million.

Total operating expenditure has grown by 9 per cent or R46 million for the 2013/2014 financial year when compared to the 2012/2013 Adjustments Budget of R527 million.

The capital budget for 2013/14 is R32 million. However, this is an area that we can explore to optimize our sourcing of government funding to implement more projects and the Project Management Unit must be the driver of this initiative.

Before submitting the tariffs for the 2013/2014 financial year it is necessary to mention that in revising the rates, tariffs and other charges for the Budget, labour costs, other input costs of services provided by the Municipality, increases in external costs such as bulk services costs, the maintenance of infrastructure, the need to ensure financial sustainability, local economic conditions and the affordability of services and the Municipality's indigent policy, were some of the factors that influenced the increases proposed to Council. There is also a directive from National Treasury to ensure that tariffs are cost reflective by 2014.

In light thereof, all tariffs have been increased by 13%, except for that of the electricity tariff. The proposed electricity tariff will increase on average by 8%, but we still await the NERSA approval as at 24 May 2013.

The draft budget tabled in March was of course not the final product and some changes have been made which is reflecting within the budget document.

I therefore submit this Annual Budget 2013/2014 for adoption.

1.2 Municipal Budget

DEFINITION OF A MUNICIPAL BUDGET

A municipal budget is generally a projection of future revenues and expenditure.

A budget is used to control financial transactions and should also be used as a management and planning tool. It is also the tool for implementing the service delivery objectives of the Municipality as set out in their Integrated Development Plan (IDP).

A municipal budget also provides for greater transparency, accountability, flexibility, and predictability within the municipality.

A Municipal budget is divided into a Capital and an Operating Budget:

a) A capital budget is an estimate of the expenses that will be incurred during that financial year to create future benefits, and the sources of finance from which these expenses will be funded. The municipality spends money either to buy fixed assets or to add to the value of an existing fixed asset with a useful life that extends beyond one year. Fixed assets include, inter alia, land and buildings, motor vehicles, furniture, computers, office equipment and machinery.

Example: Land and buildings, pump stations, water purification plants, furniture, etc.

b) An operating budget is an estimate of the operating revenues which will accrue to the municipality through its normal service delivery and the expenditure that will be incurred through the day to day operations of the municipality over the financial year.

Example: The purchase of a photocopier is a capital expenditure and is budgeted for under the capital budget, but the maintenance and other expenses such as the paper and toner for the photocopier is budgeted for under the operating budget.

OBJECTIVE OF A MUNICIPAL BUDGET

The main objective of a municipal budget is to sensibly allocate realistically expected resources to the municipality's service delivery goals or performance objectives identified as priorities in the approved IDP.

The municipal budget is a tool through which the total level of revenue and expenditure are adequately controlled, public resources are appropriately allocated among sectors and programs, and ensure that departments operate as efficiently as possible within the municipality.

WHERE DOES THE MUNICIPALITY'S REVENUE ORIGINATE FROM?

The Municipality collects revenue from various sources. To achieve sustainable service delivery, we have to ensure sustainable income streams to our services. Property rates are an important source of income, accounting for approximately 24% of the Municipality's revenue.

Other sources include tariffs charged for water and sanitation, electricity and refuse removal management. Kouga Local Municipality also receives external funds from National and Provincial Departments by means of conditional (e.g. Municipal Infrastructure Grant) and unconditional grants (e.g. Equitable Share).

WHAT DOES THE MUNCIPALITY SPEND ITS REVENUE ON?

Municipality spends its revenue on the following services:
- Water, electricity, sanitation and refuse removal
- Streets and Storm Water
- Repairs and maintenance to infrastructure
- Relief for the poor
- Fire services
- Parks
- Libraries
- Sport and recreation facilities
- Upgrading and maintenance of beaches

HOW CAN RESIDENTS BE INVOLVED IN THE BUDGET PROCESS?

The Municipality encourages public participation in the budgetary process. A draft budget can be viewed at the Municipal offices, the official Municipal website as well as all public libraries and is open to comment after it is tabled to Council in March each year.

Once the deadline for comments has been met, amendments are considered and the final budget is approved by Council before the end of May each year. New rates and tariffs are implemented at the start of each new financial year, being 1 July.

1.3 Executive Summary

The main objective of a municipal budget is to allocate realistically expected resources to the service delivery goals or performance objectives identified as priorities in the approved Integrated Development Plan.

The budget was made possible through continuous consultation with the relevant government departments and the internal departments of the Municipality to ensure that the priorities are properly aligned and addressed.

This budget is prepared based on a mutual commitment and understanding between Council and Management that strict budget control, debt control and overall financial discipline will be maintained in order to achieve the budgeted goals as set out in this budget.

By strict enforcement and execution of the credit control policy, together with an understanding of the prevailing economic climate, Council aims to maintain a rate of payment to meet Council's financial and constitutional obligations.

The Municipality's budget must be viewed in the context of the policies and financial priorities of the National, Provincial and District authorities. Basically, the government spheres are partners in fulfilling the service delivery challenges experienced in Kouga Local Municipality. It is therefore essential that the other government spheres support the municipality by direct allocation of resources and subsidies to enable the municipality to maintain and achieve the long-term capital needs of the community.

In September 2011, National Treasury published the *"Local Government Budgets and Expenditure Review"*.
The *Review* highlights the following areas as requiring particular attention by municipalities:

- ***Revenue management*** – To ensure the collection of revenues, municipalities need to ensure that billing systems are accurate, send out accounts to residents and follow up to collect revenues owed.
- ***Collecting outstanding debts*** – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable.
- ***Pricing services correctly*** – The full cost of services should be reflected in the price charged to residents who can afford to pay. Many municipalities offer overly generous subsidies and rebates that result in services being run at a loss, resulting in funds being diverted away from other priorities.
- ***Underspending on repairs and maintenance*** – Often seen as a way to reduce spending in the short term, underspending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services.
- ***Spending on non-priorities*** – Many municipalities spend significant amounts on non-priority items including unnecessary travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants are often used to perform routine tasks. Considering the pressurised economic climate continued spending on non-priority wants cannot be sustained.

National Treasury's MFMA Circular No. 66 was used to guide the compilation of the 2013/14 MTREF.

National Treasury requires municipalities to continue to explore appropriate ways of structuring the tariffs for utility services to encourage more efficient use of these services and to generate resources required for maintenance, renewal and expansion of infrastructure. They also encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect appropriate balance between the interest of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason municipalities must justify all increases in excess of the 6 per cent upper boundary of the South African Bank's inflation target.

National Treasury advises that priority ought to be given to:

- Ensuring that drinking water and waste water management meets the required quality standards at all times,
- Protecting the poor,
- Supporting meaningful Local economic development initiatives that foster micro and small business opportunities and job creation,
- Securing the health of their asset base by increasing spending on repairs and maintenance,
- Expediting spending on capital projects that are funded by conditional grants.

National Treasury also states that municipalities should control unnecessary spending on nice to-have items and non-essential activities. Some examples of non-priority expenditure is,

- excessive sponsorships, e.g. of music festivals and sporting events
- public relations projects and activities not centred on actual service delivery (e.g. celebrations; gala dinners)
- LED projects that serve the narrow interests of only a small number of beneficiaries

- excessive catering for meetings and other events
- arranging workshops and events at expensive private venues (as opposed to using the municipality's own venues)
- excessive printing costs instead of maximising the use of the municipality's website
- excessive luxurious office accommodation and office furnishings
- foreign travel by mayors, councillors and officials, particularly 'study tours'
- excessive councillor and staff perks such as luxurious mayoral cars and houses, notebooks, IPADS and cell-phone allowances; travel and subsistence allowances
- excessive staff in the office of the mayor – particularly the appointment of political 'advisors' and 'spokespersons'
- all donations to individuals that are not made in terms of the municipality's indigent policy or a bursary scheme for instance donations to cover funeral costs
- costs associated with long-standing staff suspensions and the legal costs associated with not following due process when suspending or dismissing staff, as well as payment of severance packages or 'golden handshakes'
- the use of consultants to perform routine management tasks, and the payment of excessive fees to consultants

The following budget principles and guidelines directly informed the compilation of the 2013/14 MTREF:

- The priorities and targets in relation to the key strategic focus areas as determined in the IDP.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs, including the expansion of services.
- The level of property rates and tariff increases to ensure the delivery of services on a financially sustainable basis.
- An assessment of the relative human resources capacity to implement the Budget.
- No budget allocation has been made to programmes and projects, unless the respective programme and project plans have been submitted by the relevant Executive Directors.
- The need to enhance the municipality's revenue base.
- No loan funding is available to support the Capital Budget, in view of financial affordability considerations.
- In accordance with Section 19 of the Municipal Finance Management Act, the affected Executive Directors to submit comprehensive reports in relation to new projects, inter alia, dealing with the total project costs, funding sources, future operating budget implications and associated tariff implications, before Council finally approves the implementation of any new project.
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act

The main challenges experienced remain as during the compilation of the 2012/13 MTREF and can be summarised as follows for the 2013/14 MTREF budget cycle:

- The ongoing difficulties in the local economy;
- Aging and poorly maintained infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from the Metro and Eskom), which is placing upward pressure on service tariffs to residents.

Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- The need to fill critical vacancies, but the current employee remuneration is already 35% of the operating budget
- Depleted Capital Replacement Reserve, impacting on the Municipality's ability to fund capital expenditure from internal sources
- Allocation of the required operating budget provision for newly created infrastructure and facilities, with a consequential impact on rates and tariff increases

The Operating Budget for 2013/2014 amounts to R574,292,210.66.

Total operating expenditure has grown by 9 per cent or R46 million for the 2013/14 financial year when compared to the 2012/13 Adjustments Budget. For the two outer years, operational revenue and expenditure was increased by 5.3 and 4.9 per cent respectively in line with guidance given by National Treasury.

The capital budget for 2013/14 is R32,025,975. The reduction in capital expenditure is due to affordability constraints. The capital programme for the 2014/15 and 2015/16 financial years will decrease until MIG funding has been secured. It should be noted that the Municipality has reached its prudential borrowing limits and there is very little scope to substantially increase these borrowing levels over the medium-term. The repayment of capital and interest (debt services costs) has substantially increased over the past few years.

1.4 Operating Revenue Framework

The continued provision and expansion of services is largely dependent on the Municipality generating the required revenues. Efficient and effective revenue management is thus critical in ensuring the ongoing financial sustainability of the Municipality. It is worth noting that, in accordance with the MFMA, expenditure has to be limited to the realistically anticipated revenues.

The Municipality's revenue management strategy includes the following key components:

- National Treasury's guidelines;
- Growth in the Municipality's revenue base;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges, after discounting rebates given to indigents;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Water bulk tariff increases as approved by NMBM;
- Ensuring of fully cost reflective tariffs for trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.
- The level of property rates and tariff increases must ensure financially sustainable services delivery.

- The level of property rates and tariff increases to provide for the maintenance and replacement of infrastructure, including the expansion of services.

The following is a high level summary of the 2013/14 MTREF (classified by main revenue source):

The operational revenue of R586,447,368 will be sourced as follow:

• Assessment rates	R139,092,203.65
• Electricity	R205,942,845.31
• Water	R52,489,630.70
• Sewerage	R36,054,866.08
• Refuse	R31,353,558.00
• Equitable share	R54,165,000.00
• Grants and subsidies	R14,781,350.00
• Other income	R40,412,757.02

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality (88%).

Operating grants and transfers total R69 million in the 2013/14 financial year. There has been a slight increase in the final gazetted Equitable Share Allocation. The increase in Equitable Share Allocation based on the new census data will only be seen in the 2014/15, but especially the 2015/16 financial year.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality. It should however be noted that all tariffs are still not cost reflective and this will be phased in over a period of time to be cost reflective by 2014 as advised by National Treasury.

The cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates cover the cost of the provision of general services, such as recreational, library and roads and storm water services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

The categories of rateable properties for purposes of levying rates and the rates for the 2013/14 financial year based on a 13 per cent increase from 1 July 2013 is contained in Annexure B.

It should be noted that the Municipality obtained a 1 year extension on the implementation of a new valuation roll from the MEC, the date of implementation now being 1 July 2014.

1.4.2 Sale of Water and Impact of Tariff Increases

National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

A tariff increase of 13% will be implemented as from 1 July 2013. The tariff increase is mainly influenced by the following:

- The increased cost of bulk water purchases;
- Increase in repairs and maintenance of water infrastructure;
- Moving towards cost reflective tariffs
- Providing for debt impairment.

A summary of the tariffs for households (residential) and non-residential can be obtained in Annexure B.

The tariff structure has not been changed. The tariff structure is designed to charge higher levels of consumption at a higher rate per 30 day period.

1.4.3 Sale of Electricity and Impact of Tariff Increases

Owing to the delay in Eskom's tariff increase application, NERSA has not given clear guidance on the determination of the municipal tariffs and limit.

Considering the Eskom increases, the consumer tariff had to be increased by an average of 8 per cent to offset the additional bulk purchase cost from 1 July 2013.

The tariff increases are mainly influenced by the following:

- The increase in cost of bulk electricity purchases;
- Increase in repairs and maintenance of electricity infrastructure;
- Providing for debt impairment.

The electricity tariff increases have not been approval by NERSA as yet as at 24 May 2013 and will be done before the tabling of the final annual budget.

The tariff structure of the 2013/14 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption at a higher rate per 30 day period. The aim is to subsidise the lower consumption users (mostly the poor).

A summary of the tariffs can be obtained in Annexure B.

R4.5 million's worth of Capital Projects funded by grants have been identified for the financial year.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 13 per cent for sanitation from 1 July 2013 will be implemented. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore the higher than CPI increase of 13 per cent for sanitation tariffs.

A summary of the tariffs can be obtained in Annexure B.

1.4.5 Waste Removal and Impact of Tariff Increases

Currently (2012/13) solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributing factors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, a comprehensive investigation into the cost structure of solid waste function was undertaken. The outcomes of this investigation have now been incorporated.

A 13 per cent increase in the waste removal tariff will be implemented from 1 July 2013 to ensure that the tariff is now fully cost reflective.

A summary of the tariffs can be obtained in Annexure B.

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- A balanced budget approach by limiting operating expenditure to the operating revenue;
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following is a high level summary of the 2013/14 budget and MTREF (classified per main type of operating expenditure):

The operational expenditure of R573,320,532.50 is split as follow:

- Remuneration R202,834,112.77 (including Councillors)
- Electricity purchases R156,213,500.00
- Water purchases R21,000,000.00
- Other general expenses R109,196,045.91
- Repairs and Maintenance R41,019,918.07
- Provision for non-payment R43,056,955.74

The budgeted allocation for employee related costs for the 2013/14 equals 35 per cent of the total operating expenditure. As per guidance from National Treasury, Municipalities must take into account the multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25 per cent for the 2013/14 financial year.

Considering that municipalities will be preparing and finalising their respective 2013/14 MTREF for tabling as per the MFMA prior to the announcement of the final CPI for the relevant period, municipalities will have to provide for assumed budget growth as it relates to employee related costs.

In this regard municipalities are advised that average CPI for the period November 2011 to October 2012 is 5.74 per cent which compares well to the estimate of 5.7 per cent for 2012 as provided for in the 2012 Medium Term Budget Policy Statement. Municipalities are therefore advised to provide for increases related to salaries and wages for the 2013/14 budget and MTREF as follows:

2013/14 Financial Year – 6.95 per cent (5.7 per cent plus 1.25 per cent)
2014/15 Financial Year – 6.5 per cent (5.5 per cent plus 1 per cent)

Expenditure against overtime has again been significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions. The service departments need to be the implementers of this cost saving strategy and will be monitored strictly.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget. In addition, a provision has been made for possible increases.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from the Metro (NMBM). The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved and is implemented as contracted services fall beyond the contracted term.

The provision of debt impairment was raised at 9%. All non-cash flow items and grants were eliminated from the income balance before the provision calculation was applied. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital).

A new line that we have included within the budget documentation is the Depreciation cost of R71 million. With now complying with GRAP 17, we are able to accurately reflect the

depreciation cost of Assets within the Annual Budget. This line item is seen as a 'non cash flow item'. The purpose of depreciation is to match the cost of a productive asset (that has a useful life of more than a year) to the revenues earned from using the asset. Since it is hard to see a direct link to revenues, the asset's cost is usually allocated to (assigned to, spread over) the years in which the asset is used. Depreciation systematically allocates or moves the asset's cost from the Statement of Financial Position to expense on the Statement of Financial Performance over the asset's useful life. In other words, depreciation is an allocation process in order to achieve the matching principle; it is *not* a technique for determining the fair market value of the asset. By introducing this line item within the operational expenditure budget as a result of the requirements of GRAP 17, it appears as if there is a possible loss of R70 million which is not an accurate reflection as this is a non cash flow item as explained above.

1.5.1 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. Details relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained within the expenditure budget.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.6 Annual Budget Tables – Annexure A

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
    a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
    b. Capital expenditure is balanced by capital funding sources, of which
        i. Transfers recognised is reflected on the Financial Performance Budget;
        ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
        iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget..The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. It is necessary to ensure adequate cash-backing for all material obligations. This cannot be achieved in one financial year.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures.

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means that it is possible to present the operating surplus or deficit of a vote.

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year a time schedule that sets out the process to revise the IDP and prepare the budget.

Key dates applicable to the process were:

- **August 2012** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2013/14 MTREF;
- **November 2012** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2013** - Review of the financial strategy and key economic and financial planning assumptions. This included financial forecasting and scenario considerations;
- **January 2013** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **30 January 2013** - Council considers the 2012/13 Mid-year Review and Adjustments Budget;
- **February 2013** - Recommendations of the Mayoral Committee are communicated to the respective departments. The draft 2013/14 MTREF is revised accordingly;
- **28 March 2013** - Tabling in Council of the draft 2013/14 IDP and 2013/14 MTREF for public consultation;
- **May 2013** – Public consultation;
- **14 May 2013** - Closing date for written comments;
- **15 to 24 May 2013** – finalisation of the 2013/14 IDP and 2013/14 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **30 May 2013** - Tabling of the 2013/14 MTREF before Council for consideration and approval.

2.1.2 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2013/14 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2013/14 MTREF:

- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- Cash Flow Management Strategy
- Debtor payment levels
- The need for tariff increases to be cost reflective versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA has been taken into consideration in the planning and prioritisation process.

2.1.3 Community Consultation

The draft 2013/14 MTREF as tabled before Council on 28 March 2013 for community consultation will be published on the municipality's website, and hard copies were made available at various libraries. Consultation started in May and public written comments could also be submitted to be considered.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2013/14 MTREF. Feedback and responses to the submissions received are available on request. It should be noted that some inputs given were addressing issues not relating to the budget and is not noted below. Often times inputs also only addressed concerns without proposals. The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Ring fencing of EMF levy and St. Francis Bay Sewerage levy;
- Structure of the sewerage levy;
- Increase percentage of tariffs in general;
- Budget deficit;
- Improvement to Council Chambers;
- Repairs and maintenance in general;
- Structure of Budget document;
- MIG funding for sports purpose within Capital Budget;
- Staff cost unacceptably high;
- Continuous community engagement is encouraged;
- Indication as to payment of outstanding creditors

In a short response to the above:

- The EMF levy is ring fenced as to specific expenditure line items being attributed to it, for example:
  - EIA studies R600k
  - Coastal environ management plan R350k
  - Rehabilitation of landfill sites R1.008 million
  - Green drop R250k
  - Blue drop R250k
  - Environmental clean-up operation R50k
  - Environmental awareness R50k
  - St. Francis Beach rehabilitation R1 million
  - Fencing of sewerage sites R1.2 million
  - Integrated waste management plan R60k

  The special sewerage levy for St. Francis Bay will be scrapped with effect from 1 July 2013. The residents affected by this change will now pay the normal availability and levies as all residents of Kouga Local Municipality.
- The structure of the sewerage levy is being changed. In the draft budget there was a basic sewerage charge and also a fix cost portion up to the use of 10kl water usage. This will now be consolidated back into one tariff as a basic charge. If more than 10kl is used a variable charge is still in effect as per the tariff listing. It should be noted that the tariff structure was changed in 2010/2011 and in 2009/2010 the availability charge for sewerage was R156.12 (i.e. basic charge). With the consolidation of the sewerage tariff below 10kl we will charge R153.95 which is still below the tariff that was charged in 2009/2010.
- Increases in the tariffs have been justified within the budget document as required by National Treasury.
- It has been explained in the budget document how the budget deficit originates. National Treasury has also issued the MFMA Circular number 55 dealing with budgeting for an operating deficit specifically mentioning the introduction of GRAP 17 and also that any such deficit should be relating to 'non cash deficit' which is the case within our Budget document.
- The proposed improvement to the Council chambers has been removed from the Capital Budget.
- Repairs and maintenance amount to 7.32% of the Annual Budget. A 10% increase is not achievable at this stage.
- The structure of the budget document is as per prescribed by National Treasury.
- The capital budget reflects an allocation to sports. It should be noted that only projects that are register with the MIG programme can be expensed on. The expenditure will be for infrastructure related projects.
- A resolution was taken by Council with the adoption of the draft budget that restructuring should be implemented due to the high salaries cost.
- An engagement will be set up with interested parties to improve service delivery.
- Both the debtors book balance and the creditors book balance has been excluded from the 2013/14 Budget. The debtors' book balance far exceeds the creditors' book balance and arrear payments will be funded from these collections. These amounts will also be reflecting within the Statement of Financial Position.

Significant changes effected in the final 2013/14 MTREF compared to the draft 2013/14 MTREF that was tabled for community consultation, include:

Tariffs:

- The special sewerage levy for St. Francis Bay will be scrapped with effect from 1 July 2013. The residents affected by this change will now pay the normal availability and levies as all residents of Kouga Local Municipality.
- The structure of the sewerage levy is being changed. In the draft budget there was a basic sewerage charge and also a fix cost portion up to the use of 10kl water usage. This will now be consolidated back into one tariff as a basic charge. If more than 10kl is used a variable charge is still in effect as per the tariff listing. It should be noted that the tariff structure was changed in 2010/2011 and in 2009/2010 the availability charge for sewerage was R156.12 (i.e. basic charge). With the consolidation of the sewerage tariff below 10kl we will charge R153.95 which is still below the tariff that was charged in 2009/2010.
- There have been some changes to the electricity tariffs due to requirements from NERSA.

Budgeted figures:

- The operating income decreased by R12 million mainly due to decrease in the projection of electricity income
- The operating expenditure decreased by R12 million cutting mainly (R10 million) in the other expenditure line.

2.2 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
   Reporting to National Treasury in electronic format was complied with on a monthly basis.

2. Internship programme
   The Municipality is participating in the Municipal Financial Management Internship programme and has employed interns undergoing training in various divisions of the Financial Services Department.

3. Budget and Treasury Office
   The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee
   An Audit Committee has been re-established.

5. Service Delivery and Implementation Plan
   The detailed SDBIP document is still to be developed after the approval of the annual budget and draft IDP.

6. Annual Report
   Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. Policies
   An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

2.3 Municipal Manager's Quality Certificate

I, THOBEKA ETHEL TOM, Municipal Manager of Kouga Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name THOBEKA ETHEL TOM

Municipal manager of Kouga Local Municipality ACTING

Signature [signature]

Date 02 JULY 2013

13/05/FAME33 **MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) – BUDGET FOR THE FINANCIAL YEARS 2013/14 TO 2015/16**

Resolved: (3 June 2013)

i) That the Council of Kouga Local Municipality, hereby acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) hereby approves and adopts:

a) The Annual Budget of the Kouga Municipality for the financial year 2013/14 and the multi-year and single-year capital appropriations as set out in the following tables:

1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2 in Annexure A of the Budget Document.

2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3 in Annexure A of the Budget Document.

3. Multi-year and single-year capital appropriations as contained in Table A9 in Annexure A of the Budget Document.

ii) That the financial position, draft cash flow budget, draft cash-backed reserve/accumulated surplus, draft asset management and basic service delivery targets be approved as set out in the following tables:

1. Budgeted Financial Position as contained in Table A6 in Annexure A of the Budget Document.

2. Budgeted Cash Flows as contained in Table A7 in Annexure A of the Budget Document.

3. Cash-backed reserves and accumulated surplus reconciliation as contained in Table A8 in Annexure A of the Budget Document.

4. Asset Management as contained in Table A9 in Annexure A of the Budget Document.

5. Basic Service Delivery measurement as contained in Table A10 in Annexure A of the Budget Document.

iii) That the Council of Kouga Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) hereby approves and adopts with effect from 1 July 2013:

a) All the Tariffs and Charges as contained in Annexure B of the Budget Document.

iv) That provision should be made for the proposed additional capital expenditure of R50,000,000 through the ring-fencing of land disposal and debt collection initiatives. Currently these projects are unfunded and any shortfall must be covered through savings in operational expenditure in the Adjustment Budget.

v) That the revenue be increased by R50,000,000 for land sales to fund the additional capital expenditure.

vi) That the Income be adjusted accordingly.